

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-10 ISO-00 EURE-00 SP-02 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04

OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AS-01

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P R 181612Z NOV 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 5275

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 28586, NOV 3, 1975

1. SUMMARY. BUOYED BY PRIVATE-SECTOR OPTIMISM OVER
PROSPECTS FOR UPTURN IN FRENCH ECONOMY, GOF NOW MAIN-
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TAINS THAT CURRENT ECONOMIC TROUBLES WILL BE OVER BY

NEXT SPRING. OFFICIAL LE ALSO IMPLIES THAT FRANCE'S EXPERIENCE WITH CURRENT WORLD RECESSION WILL PROVE TO HAVE BEEN SHORTER THAN THAT FOR OTHER MAJOR INDUSTRIAL COUNTRIES. SEPTEMBER INDEX OF INDUSTRIAL PRODUCTION FAILED TO DEMONSTRATE ANY UPTURN, HOWEVER, AND SUBSTANTIAL TRADE DEFICIT REGISTERED IN OCTOBER. UNEMPLOYMENT CONTINUES TO RISE, TOPPING ONE MILLION MARK (ON UNADJUSTED BASIS) AT END OF OCTOBER. END SUMMARY.

2. FOURCADE REITERATES HOPES FOR EARLY ECONOMIC RECOVERY --

IN RADIO INTERVIEW NOV 10, FINANCE MINISTER FOURCADE SAID HE BELIEVED FRANCE IS CURRENTLY ON THE WAY TO ECONOMIC RECOVERY, AND "WILL PULL OUT OF THE CRISIS NEXT SPRING." HE ADDED THAT FRANCE SHOULD BE IN "SATISFACTORY CONDITION" AT THAT TIME, AND THUS WILL HAVE STAGED ECONOMIC RECOVERY "A LITTLE FASTER THAN OUR PRINCIPAL PARTNERS" DESPITE FACT THAT IT HAD ENTERED DOWNTURN SOMEWHAT LATER. FOURCADE ALSO SAID THAT RECENT STEPS TAKEN TO TIGHTEN SYSTEM OF OFFICIAL PRICE CONTROLS (REFTEL) WOULD BRING FRENCH PRICE INFLATION INTO LINE WITH THAT IN GERMANY AND U.S., WHILE "MODERATE" ECONOMIC GROWTH LIKELY FOR NEXT YEAR. HE PREDICTED THAT FRENCH TRADE BALANCE WOULD BE IN EQUILIBRIUM FOR 1975 (WHICH IN FACT WOULD ENTAIL A TRADE DEFICIT OF FF 6.6 BILLION FOR FOURTH QUARTER, GIVEN CUMULATIVE SURPLUS THROUGH SEPTEMBER; SEE PARA 7 BELOW).

FOURCADE'S LATEST PROJECTIONS, COUPLED WITH OTHER RECENT STATEMENTS BY HIM, PRESIDENT Giscard AND PRIME MINISTER CHIRAC (REFTEL), APPEAR TO BE PART OF GOF CAMPAIGN TO BOOST CONFIDENCE ON PART OF FRENCH PUBLIC, ESPECIALLY INVESTORS. EVEN GRANTING THAT SUCH OFFICIAL EXPRESSIONS OF OPTIMISM AIMED AT PSYCHOLOGICAL SIDE OF ECONOMIC-RECOVERY EQUATION, THERE IS NO FIRM EVIDENCE AS YET THAT ECONOMIC UPTURN HAS BEGUN IN EARNEST. AS DISCUSSED IN RECENT EMBASSY FORECASTS (SEE' E.G., PARIS 26208), FRANCE DOES NOT SEEM IN POSITION TO STAGE A BROAD AND SUSTAINED REVIVAL BEFORE THE LATTER PART OF UNCLASSIFIED

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1976.

3. PATRONAT NOTES REVIVAL IN CONSUMER SPENDING --

NOVEMBER SURVEY OF FRENCH ECONOMY CONDUCTED BY PATRONAT (ROUGHLY EQUIVALENT TO N.A.M.) FOUND MOST SIGNIFICANT DEVELOPMENT TO BE UPTURN IN SPENDING BY HOUSEHOLDS, HELPED ALONG BY GOF'S ECONOMIC-SUPPORT PRO-

GRAM. ALTHOUGH EFFECTS SHOULD SOON BE FELT IN LEVEL OF NEW ORDERS TO INDUSTRY, PATRONAT CONCLUDES THAT ABNORMAL-LY HIGH LEVELS OF BASIC AND INTERMEDIATE STOCKS AND OF EXCESS CAPACITY SHOULD PREVENT EFFECTS OF INCREASED SPENDING FROM BEING REFLECTED IN HIGHER LEVELS OF INDUSTRIAL PRODUCTION FOR SOME TIME TO COME. MOREOVER, "SUBSTANTIAL" UNDER-UTILIZATION OF CAPACITY SUGGESTS EVEN LONGER DELAY LIKELY BEFORE ANY REVIVAL IN CAPITAL-EQUIPMENT SECTOR.

WITH RESPECT TO PRICES, PATRONAT REPORT FORESEES DANGER OF DOUBLE-DIGIT INFLATION RETURNING IN NEAR FUTURE. (CONSUMER PRICES ROSE AT 9 PERCENT ANNUAL RATE

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CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04

OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AS-01

/121 W

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P R 181612Z NOV 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 5276

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USDEL MTN GENEVA

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USMISSION OECD PARIS

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IN THIRD QUARTER.) INCREASES IN RAW-MATERIAL PRICES SINCE JULY ARE EXPECTED TO EXERT UPWARD PRESSURE ON PRICES FOR MANUFACTURES, THE ONE COMPONENT OF CPI WHICH HAS REGISTERED STEADY PRICE DECELERATION OVER PAST YEAR. UNEMPLOYMENT, ACCORDING TO PATRONAT, SHOULD STABILIZE AT ABOUT 900,000 JOBLESS -- ROUGHLY 4.1 PERCENT OF THE LABOR FORCE.

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IN RELATED DEVELOPMENT, PATRONAT CHIEF FRANCOIS CEYRAC MET WITH PRESIDENT GISCARD NOV 5 TO PLEAD FOR ADDITIONAL GOVERNMENT AID TO FINANCIALLY PRESSED FIRMS. ACCORDING TO PRESS REPORTS, CEYRAC TOLD GISCARD THAT LEGACY OF CURRENT RECESSION FOR MOST FRENCH FIRMS WILL BE HEAVY DEBT BURDEN AND NEARLY DEPLETED CORPORATE FINANCE. THUS, CEYRAC SAID, FRENCH ECONOMIC RECOVERY MAY BE UNDER WAY BUT FRANCE'S ECONOMY WILL BE IN "PRECARIOUS" CCNDITION FOR MONTHS TO COME.

4. BUSINESS CLIMATE SHOWS IMPROVEMENT --

OVERALL CLIMATE IN FRENCH BUSINESS AND INDUSTRY IMPROVED MARKEDLY IN SEP AND ESPECIALLY OCT, ACCORDING TO NOV 3 REPORT BY PARIS CHAMBER OF COMMERCE. CONSUMPTION OF INDUSTRIAL PRODUCTS ADVANCED DURING THIRD QUARTER -- DUE LARGELY TO GAINS RECORDED IN AUTO INDUSTRY -- WHILE INVENTORIES OF FINISHED GOODS DECLINED IN CONSUMER-GOODS SECTOR AND IN RETAIL TRADE. PRIVATE-SECTOR SPENDING ON PRODUCTIVE INVESTMENT REMAINS WEAK, HOWEVER. WITH FOREIGN ORDERS IN CAPITAL-EQUIPMENT SECTOR HAVING DROPPED FURTHER IN THIRD QUARTER, CHAMBER REPORT CONCLUDES OVERALL EXPORT PROSPECTS FOR FRENCH INDUSTRY REMAIN "RATHER BLEAK."

5. DROP IN OUTPUT REGISTERED IN SEPTEMBER --

FRENCH INDUSTRIAL PRODUCTION IN SEP RECEDDED SOMEWHAT FROM MID-SUMMER LEVELS, ON SEASONALLY ADJUSTED BASIS, RETURNING TO THREE-YEAR LOW POINT RECORDED IN MAY. OVERALL INSEE (NATIONAL STATISTICS INSTITUTE) INDEX OF INDUSTRIAL OUTPUT SET AT 109 FOR SEP, DOWN 1 PERCENT FROM 110 IN JULY-AUGUST AND 11 PERCENT FROM 122 IN SEP

1974 (SEASONALLY ADJUSTED, BASE 1970 AS 100). AS SHOWN BELOW BY THREE-MONTH MOVING AVERAGES OF INSEE INDEX, TREND IN FRENCH INDUSTRIAL PRODUCTION APPEARED FAIRLY FLAT THROUGH THIRD QUARTER FOLLOWING SHARP DECLINES OF FOURTH QUARTER 1974 AND FIRST TWO QUARTERS 1975.

FRENCH INDUSTRIAL PRODUCTION
(SEASONALLY ADJUSTED INDEX, BASE 1970 AS 100; THREE-UNCLASSIFIED

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MONTH MOVING AVERAGES)

OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AUG SEP
124 120 118 116 116 115 113 111 111 110 111 110

CRUDE STEEL PRODUCTION REPORTED TO HAVE REACHED 1.8 MILLION TONS IN OCT, BRINGING TOTAL OUTPUT FOR FIRST 10 MONTHS OF 1975 TO 18 MILLION TONS -- A DECLINE OF MORE THAN 19 PERCENT OVER SAME PERIOD LAST YEAR.

6. UNEMPLOYMENT HITS ONE MILLION IN OCTOBER --

AS REPORTED PREVIOUSLY, THE NUMBER OF FRENCHMEN OUT OF WORK HAS BEEN EXPECTED TO REACH ONE MILLION IN THE FINAL QUARTER OF 1975. SUCH FORECASTS PROVED CORRECT WITH RELEASE OF LABOR MINISTRY FIGURES SHOWING 1,015,800 REGISTERED UNEMPLOYED AT END OF OCT. ON SEASONALLY ADJUSTED BASIS, HOWEVER, NUMBER OF REGISTERED UNEMPLOYED INCREASED LESS THAN 2 PERCENT DURING OCT, TO 900,000 AT MONTH'S END. ON BASIS OF AVAILABLE DATA, WE ESTIMATE SEASONALLY ADJUSTED UNEMPLOYMENT IN OCT AT ROUGHLY 4.1 PERCENT OF THE LABOR FORCE (SEE PARIS A-322 FOR METHODOLOGY).

LABOR MARKET INDICATORS
(SEASONALLY ADJUSTED; IN THOUSANDS, END-OF-MONTH)

MAY JUN JUL AUG SEP OCT
REGISTERED
UNEMPLOYED 834.9 877.5 884.9 864.2 882.4 900.0

UNFILLED
JOB OFFERS 105.7 103.3 102.5 102.7 105.3 101.2

UNEMPLOYMENT

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OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AS-01

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P R 181612Z NOV 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 5277

INFO AMEMBASSY BONN

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USMISSION OECD PARIS

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AS PERCENT OF

LABOR FORCE

(ESTIMATE) 3.8 4.0 4.0 3.9 4.0 4.1

DESPITE HEADLINES GENERATED BY BREACH OF ONE-MILLION-UNEMPLOYED MARK, SEASONALLY ADJUSTED INCREASE IN OCT UNEMPLOYMENT WAS ACTUALLY QUITE MODEST -- THE SECOND SMALLEST MONTHLY INCREASE, IN FACT, IN MORE THAN A YEAR.
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THIS TENDS TO SUPPORT CONJECTURE (SEE PARIS 27107) THAT FACTORS HAVING ADVERSE IMPACT ON LABOR-MARKET SITUATION THIS FALL ARE TURNING OUT TO BE LESS SEVERE THAN ANTICIPATED. ONE DISTURBING ELEMENT, HOWEVER, IS 4 PERCENT DECLINE IN UNFILLED JOB OFFERS DURING OCT. THIS INDICATOR HAD PREVIOUSLY BEGUN TO SHOW SOME IMPROVEMENT -- A DEVELOPMENT THAT, WERE IT TO CONTINUE, COULD PRESAGE DECLINE IN ACTUAL LEVEL OF UNEMPLOYMENT. MOST PLAUSIBLE INTERPRETATION IS THAT EMPLOYERS, FACED WITH PROSPECT OF INCREASED PRODUCTION, ARE ATTEMPTING TO REDUCE "PARTIAL UNEMPLOYMENT" (I.E., CURTAILED WORKING HOURS) BEFORE SEEKING TO AUGMENT THEIR WORK FORCE ONCE AGAIN.

7. TRADE ACCOUNT MOVES SHARPLY INTO DEFICIT --

WITH EXPORTS FALLING AND IMPORTS RISING FOR SECOND CONSECUTIVE MONTH, FRANCE'S TRADE ACCOUNT REGISTERED DEFICIT OF 1.6 BILLION FRANCS IN OCT (SEASONALLY ADJUSTED, FOB-FOB). IT WAS THE LARGEST SUCH DEFICIT IN ONE YEAR BUT, WITH 8 CONSECUTIVE MONTHLY TRADE SURPLUSES PRECEDING IT, CUMULATIVE TRADE BALANCE FOR FIRST 10 MONTHS OF 1975 SHOWED FF 7.1 BILLION SURPLUS.

FRENCH FOREIGN TRADE
(SEASONALLY ADJUSTED; IN BILLIONS OF FRANCS, FOB-FOB)

MAY JUN JUL AUG SEP OCT

IMPORTS	16.0	17.6	18.8	17.6	18.4	19.7
EXPORTS	17.7	18.8	19.6	18.9	18.5	18.2
BALANCE	1.8	1.2	0.8	1.2	0.1	-1.6

FRENCH TRADE BALANCE, AS MEASURED BY SEASONALLY ADJUSTED RATE OF EXPORT COVER, HAS NOW DROPPED FROM 111 PERCENT OF IMPORTS IN MAY TO 92 PERCENT IN OCT -- THE LOWEST IT HAS BEEN SINCE AUG 1974. RECENT UPSURGE IN IMPORTS (UP 7 PERCENT IN OCT, 4 PERCENT IN SEP) UNDOUBTEDLY REFLECTS UPWARD INCIDENCE ON OVERALL FRENCH IMPORT PRICES OF HIGHER WORLD PRICES FOR PETROLEUM AND RAW MATERIALS GENERALLY, COMPOUNDED BY RECENT DEPRECIATION IN FOREIGN-EXCHANGE VALUE OF THE FRANC RELATIVE TO THE DOLLAR. GOF OFFICIALS BELIEVE THAT FRENCH IMPORTS UNCLASSIFIED

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HAVE BEGUN TO PICK UP MARKEDLY IN VOLUME TERMS AS WELL, DUE TO IMPROVED OUTLOOK IN FRENCH INDUSTRY AND CONSEQUENT NEED TO REPLENISH STOCKS OF IMPORTED MATERIALS. AS INDICES OF REAL FRENCH IMPORTS AND EXPORTS PUBLISHED

WITH LAG OF 3 MONTHS BEHIND NOMINAL FIGURES, THIS HYPOTHESIS CANNOT BE CONFIRMED AS YET. EXPORTS DECLINED 2 PERCENT IN OCT TO A LEVEL NEARLY IDENTICAL TO THAT FOR OCT 1974; AND, AS NOTED PARA 4 ABOVE, THERE IS LITTLE PROSPECT FOR IMPROVEMENT IN FRENCH EXPORTS OVER COMING MONTHS.

8. OTHER REPORTS --

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ACTION EUR-12

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FM AMEMBASSY PARIS

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INFO AMEMBASSY BONN

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TELEGRAMS:

28538 STATE OF THE FRENCH ECONOMY 11/3/75

29089 FRENCH UNEMPLOYMENT STATISTICS 11/7/75

29638 GISCARD STATEMENTS ON INTERNATIONAL
MONETARY REFORM 11/13/75

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29876 FOURCADE COMMENTS ON MONETARY ASPECTS
OF SUMMIT 11/17/75

29913 WIRE SERVICE REPORTS ON MONETARY
ASPECTS OF SUMMIT 11/17/75

AIRGRAMS

A-459 TRADE WITH COMMUNIST AREAS 10/29/75

A461 FRENCH FOREIGN EXCHANGE HOLDINGS 10/31/75

A-466 TRADE WITH SOVIET BLOC 11/5/75

A-467 TRADE WITH COMMUNIST AREAS 11/5/75

A-471 FRENCH FOREIGN EXCHANGE HOLDINGS 11/7/75

A-474 FRENCH RESERVES IN OCT 1975 11/10/75

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06 JUL 2006

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